



1989

TRICO BANCSHARES • ANNUAL REPORT



TriCo Bancshares (the "Company") is a bank holding company incorporated at the direction of the Board of Directors of Tri Counties Bank (the "Bank") on October 13, 1981. Pursuant to a corporate reorganization on September 7, 1982, the shareholders of the Bank became shareholders of the Company and the Bank became the wholly-owned subsidiary of the Company. The Bank currently is the only subsidiary of the Company, and the Company has not yet commenced any business operations independent of the Bank.

The Bank engages in the

general commercial banking business in the California counties of Butte, Glenn, Shasta, and Siskiyou, as well as portions of Tehama and Lassen. It opened its first banking office in Chico, California, in 1975, followed by branch offices in Willows, Durham and Orland, California. A second branch office in Chico opened in 1980. In 1981, the Bank acquired the assets of Shasta County Bank through a merger of that bank with and into the Bank, adding six additional offices in the communities of Bieber, Burney, Cottonwood, Fall River Mills, Palo Cedro and

Redding, California. In 1987, the Bank acquired certain assets of the Wells Fargo Bank branch office in Yreka, California, thereby extending its service area into Siskiyou County. In 1988, the Bank opened a third Chico branch office in the new Chico Mall, a regional shopping center.

In 1990, the Bank will open a branch office in Yuba City, the first to serve Sutter and Yuba counties.

The Bank's operating policy since its inception has emphasized retail banking. Most of the Bank's customers are retail customers and small to medium-sized businesses.

The business of the Bank emphasizes serving the needs of local businesses, farmers and ranchers, retired individuals and wage earners.

The majority of the Bank's loans are direct loans made to individuals and businesses in the area, and most of the Bank's deposits are attracted from individuals and business-related sources. The Bank relies substantially on local promotional activity; personal contacts by its officers, directors, employees and shareholders; extended hours; personalized service and its reputation in the communities it serves to compete with other financial institutions.

MARKET MAKERS FOR TRICO BANCSHARES COMMON STOCK

Sutro & Co. Incorporated
31416 Agoura Road, Suite 180
Westlake Village,
California 91361-4671

Troy Norlander
(800) 288-2811
Mert Norlander
(800) 888-0929
(818) 706-2929

Hofer & Arnett Incorporated
100 Pine Street, Fourth Floor
San Francisco,
California 94111

Marc Arnett
Philip Economopoulos
(800) 346-5544
(415) 362-7111

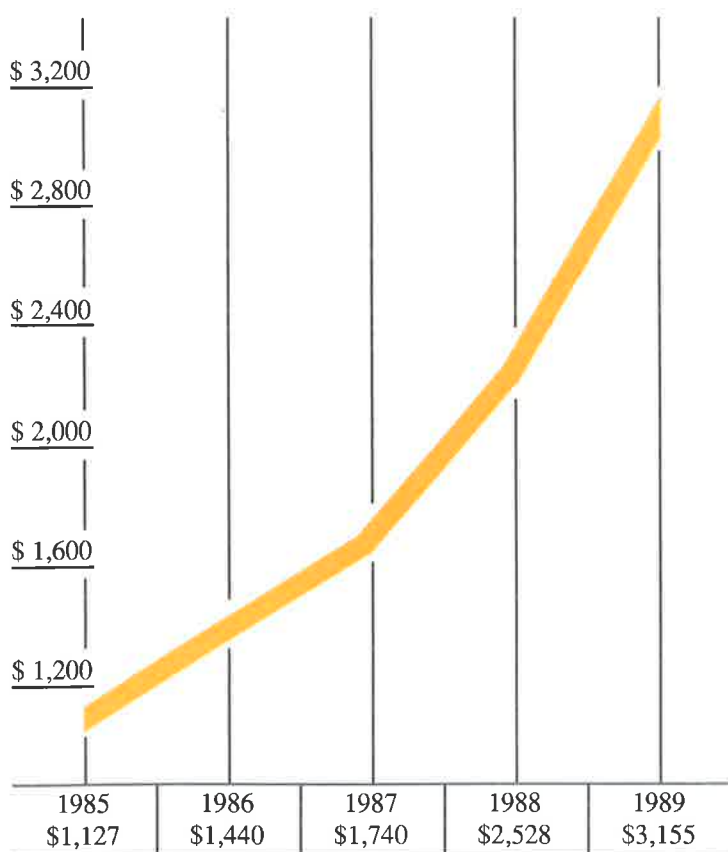
FINANCIAL HIGHLIGHTS



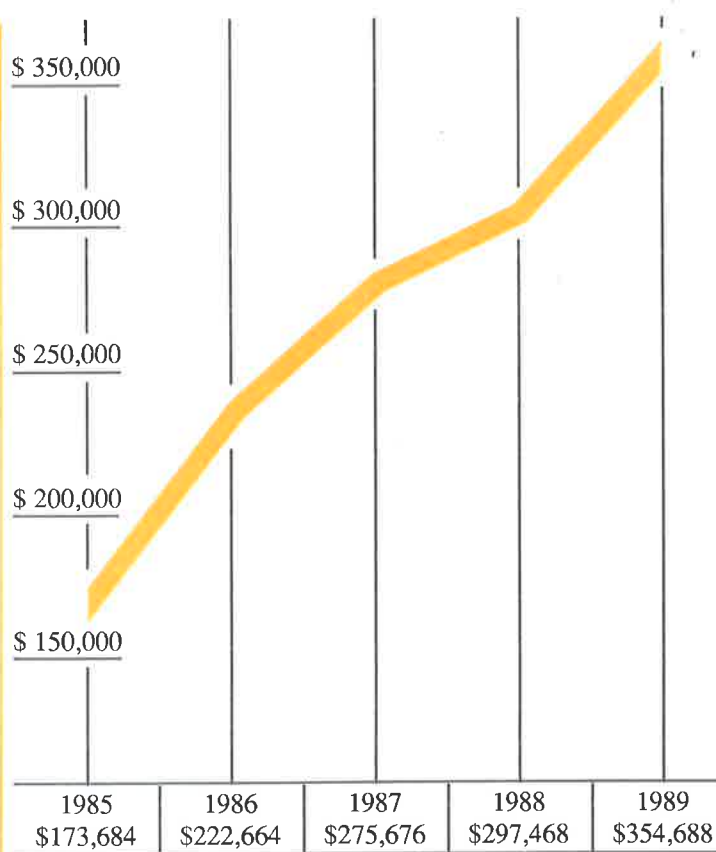
(In thousands, except earnings per common share and dividends per common share)

Years ended December 31,	1989	1988	1987	1986	1985
Assets	\$354,688	\$297,468	\$275,676	\$222,664	\$173,684
Investment securities	57,638	62,494	67,719	41,430	29,422
Loans, net	227,749	185,339	165,856	140,361	108,352
Deposits	321,680	272,004	252,859	200,314	152,260
Shareholders' equity	26,243	19,822	14,164	12,900	11,756
Interest income	30,142	25,514	21,627	19,072	17,051
Interest expense	16,515	13,553	11,564	9,939	9,559
Net income	3,155	2,528	1,740	1,440	1,127
Earnings per common share	\$ 1.71	\$ 1.48	\$ 1.00	\$ 0.78	\$ 0.68
Cash dividends per common share	\$ 0.30	\$ 0.30	\$ 0.275	\$ 0.25	--
Stock dividends per common share	--	28.00%	--	5.00%	5.00%
Return on average assets	1.01%	0.89%	0.73%	0.76%	0.71%
Return on average common shareholders' equity	17.20%	16.22%	13.01%	11.66%	11.31%

NET INCOME (In thousands)



TOTAL ASSETS (In thousands)



INCREASED EARNINGS



TriCo Bancshares and its wholly-owned subsidiary, Tri Counties Bank, continue to grow and prosper.

As seen in the preceding graphs, earnings increased 25% to \$3,155,000 during 1989. Total assets increased 19% to \$354,688,000.

Net worth gained 32% through increased capitalization and retained earnings. Primary capital is now 8.0% of assets.



NEW MARKETING AREA

Both the State Banking Department and the Federal Deposit Insurance Corporation have approved our expansion into the Yuba City/Marysville market, one comparable in size to Chico or Redding. We have already begun soliciting business in the area. In Mid-1990, we will open a 7,800 square foot, two-story branch office at the northwest corner of Colusa Highway and Civic Center Boulevard, Yuba City. This prime location is near the new Sutter County Courthouse, the City Hall and other Yuba City and Sutter County government facilities. A major regional mall, upscale residential neighborhoods and extensive industrial development are also located nearby.

Robert H. Steveson, President and Director (right) with Chandler Church, Vice President & Area Manager (center) and Craig Hendy, Vice President & Yuba City Branch Manager (left) inspect the location for the new Yuba City Branch, due to open in 1990.





Donald J. Casey, M.D.



James M. Mabry

RETIREMENTS

Donald J. Casey, M.D., Founding Director and our largest individual shareholder, is now Director Emeritus. During Dr. Casey's fifteen year term on the Board, the Bank grew from its original \$1,000,000 capitalization to over \$330,000,000 in assets.

James M. Mabry has retired as Senior Vice President and Loan Administrator of the Bank. Mr. Mabry joined the Bank in 1980 when total loans outstanding were, \$23,000,000. They are now ten times that amount.

Ray Langford, Yreka Branch Manager, has retired. Mr. Langford joined the Bank when the Yreka Branch was acquired in 1987 after a career with several statewide banks.

NEW DIRECTORS



William J. Casey, Craig S. Compton and Brian D. Leidig were elected members of the Company's Board of Directors at the annual meeting of shareholders held September 19, 1989.

Mr. Casey owns a health care consulting business and is a director of InterCare, Inc. He succeeds his father, Dr. Donald J. Casey.

Mr. Compton is the president, general manager and a pilot for AVAG, Inc. His father, the late Gerald H. Compton, was a Founding Director of the Bank and the Company.

Mr. Leidig is president of his own real estate development and investment company. He was a director of Shasta County Bank when it merged into the Bank in 1981.

Craig S. Compton (left), Brian D. Leidig (center) and William J. Casey (right).





PROMOTIONS



Carroll Taresh, Senior Vice President, has been promoted to Executive Vice President and Chief Operating Officer of the Bank. Mr. Taresh joined the Bank in 1976 as Willows Branch Manager, served as Regional Vice Executive Vice President and Chief Administrative Officer (center), and Ty Thresher, Senior Vice President and Loan Administrator (right).

Joan Jones, Executive Vice President and Chief Administrative Officer of the Bank, is now also Executive Vice President and Chief Financial Officer of the Company. Mrs. Jones joined the Bank in 1976 as Assistant Vice President, becoming Vice President in 1979, Senior Vice President in 1981 and Executive Vice President in 1986.

Ty Thresher, formerly Vice President and Park Plaza Branch Manager, is now Senior Vice President, and Loan Administrator.

Fred C. Bryant, formerly Compliance Officer and Senior Auditor, became Chief Auditor and Compliance Officer in October 1989.

Joe Drakulic, formerly Vice President and Regional Loan Specialist, is now Vice President and Manager of the Park Plaza Branch. Dan Bay is now Yreka Branch Manager, Julie M. Jones is now Palo Cedro Branch Manager and Nolan C. Hawkins is now Redding Branch Manager.

Roland Irvine became Chico's Pillsbury Branch Manager (left) and Dan Bay, Yreka Branch Manager (right).

Dave DuBose is now Orland Branch Manager, while Erika Bender moved to Manager of the Real Estate Department.



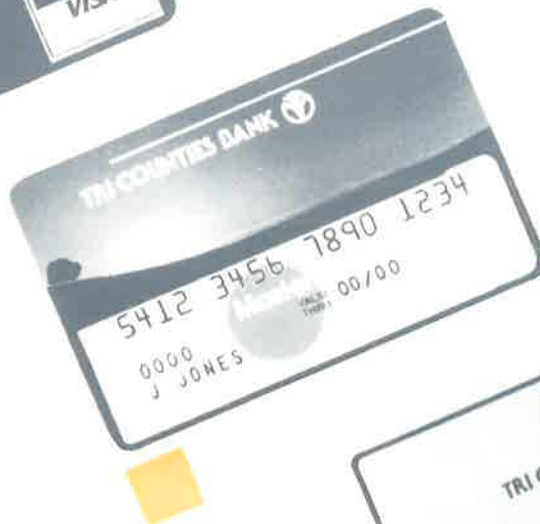
VISA/MASTERCARD DEPARTMENT



In February 1989, the Bank introduced its own distinctive VISA, MasterCard and Gold MasterCard credit cards. Our 15.96% annual percentage rate on balances outstanding is well below that of cards issued by competing financial institutions. We also waive the first year's annual fee. Despite our stringent credit requirements, the Bank now has nearly two thousand VISA MasterCard Department credit card customers with an aggregate of \$1,493,000 in balances outstanding.

Vickie Gibson, Manager of the Bank's new

VISA MasterCard Department





STOCK SALE

\$5,070,000 in additional capital was raised in 1989 through the sale of 1,690 Units of preferred and common stock. Each \$3,000 Unit consisted of ten shares of 10% Series C Preferred Stock and 100 shares of Common Stock. The Series C Preferred Stock pays

an annual preferred dividend of \$13.50 per share, 10% of its liquidation and redemption value of \$135.00 per share. The net proceeds of \$4,859,000 from the sale of these units will be used for opening the new Yuba City Branch and for further expansion.

Kimberly D. Carter, Shareholder Relations

Administrator, manages the accounts of the

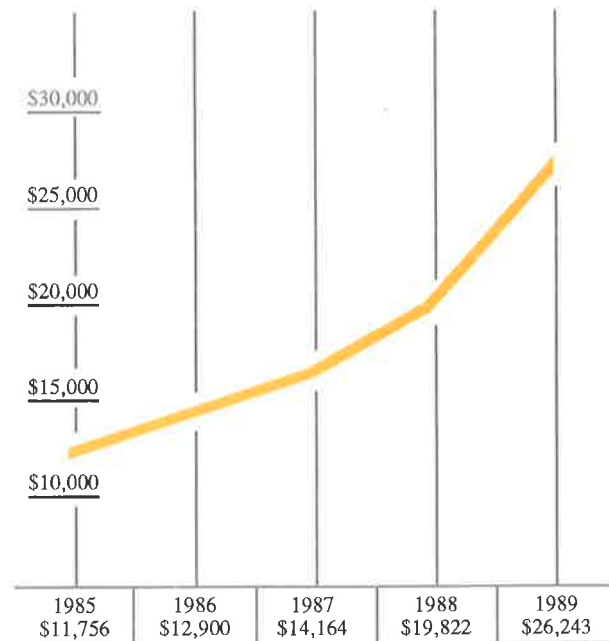
Company's holders of common stock and

preferred stock.



SHAREHOLDERS' EQUITY

(In thousands)



REAL ESTATE LENDING



Real estate mortgages and construction loans continue to be an important part of our loan portfolio. However, due to rapidly rising real estate prices in Northern California, it has seemed prudent to curtail construction lending and increase commercial, agricultural and consumer lending.

Erika Bender, Manager, Real Estate Department, inspecting a home financed by the Bank.



INVEST

INVEST, the full-service investment brokerage franchise, continues to generate important fee income. As a registered broker/dealer, INVEST offers annuities, stocks, bonds, mutual funds, "Ginnie Maes," Treasury bills and other U.S. Government obligations, self-directed IRAs and money market accounts. Member SIPC.

Ron Bee, INVEST Manager, is a fully registered financial professional.





NEW CUSTOMER SERVICES

We now make House Calls. The Bank will send a representative to a customer's home or office during normal business hours to handle non-cash transactions.

Customers can now get their checking or savings balance, recent debits and credits plus our current interest rates by calling our 24-hour Balance Inquiry

System. Customers never leave their cars when using

our 24-hour drive-up ATM at Chico's Park

Plaza Branch.

In Northern California dial toll-free 1-800-922-8742, or from the Chico area and locations outside of Northern California dial (916) 895-8742.

One of our newest 24-hour ATMs is a drive-up at Chico's Park Plaza Branch. Our ATMs are part of the CIRRUS and STAR Networks. Incidentally, we provide ten hours of drive-up teller banking at most offices, 9 a.m. to 7 p.m., Monday through Friday.

We now offer Leisure Line Checking, a package of valuable banking services, to customers over 50 years of age who maintain a \$100 minimum balance.



ALEX A. VERESCHAGIN, JR.
Chairman of the Board
Secretary-Treasurer,
Vereschagin Oil Company,
Petroleum distribution company, Orland



EVERETT B. BEICH
Vice Chairman of the Board
Owner, Beich Company
Real estate development, Chico



FRED W. HIGNELL, III
Secretary of the Board
Principal Partner, Hignell & Hignell, Inc.,
Investment and development company,
Chico



WILLIAM J. CASEY
Health care consultant, Chico



DEWAYNE E. CAVINESS, M.D.
Physician and Surgeon, Chico



ROBERT H. STEVESON
President and Chief Executive Officer
Tri Counties Bank and
TriCo Bancshares, Chico





CRAIG S. COMPTON
President, AVAG, Inc.
Aerial application business, Richvale



SANKEY M. HALL, JR.
Retired Businessman
Colonel, U.S. Air Force Reserve
(Retired), Chico



WAYNE MEEKS
Retired Businessman, Chico



BRIAN D. LEIDIG
President, Parlay Investments, Inc.
Real estate investment and
development company, Redding



DONALD E. MURPHY
Vice President and General Manager,
J.H. McKnight Ranch, Nelson



ROBERT J. STERN
Retired President,
R.J. Stern Co., Inc., Oroville



WENDELL J. LUNDBERG
Owner, Wehah Farms
Rice and grain operations, Richvale



Robert H. Steveson
President and
Chief Executive Officer

Joan Jones
Executive Vice President and
Chief Administrative Officer

Carroll Taresh
Executive Vice President and
Chief Operating Officer



Ty Thresher
Senior Vice President and
Loan Administrator

Daniel Herbert
Vice President and Cashier

Ruth Irvine
Vice President and
Personnel Manager

Larry Hall
Vice President and
Data Processing Manager





**REPORT OF INDEPENDENT
PUBLIC ACCOUNTANTS**

**To the Board of Directors and Shareholders of
TriCo Bancshares and Subsidiary:**

We have audited the accompanying consolidated balance sheet of TriCo Bancshares and Subsidiary as of December 31, 1989, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of TriCo Bancshares and Subsidiary as of December 31, 1988 and December 31, 1987, were audited by other auditors whose reports dated January 20, 1989 and January 27, 1988, respectively, expressed unqualified opinions on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TriCo Bancshares and Subsidiary as of December 31, 1989, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

San Francisco, California
January 19, 1990


CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

December 31,

ASSETS

	1989	1988
Cash and due from banks	\$ 15,601	\$ 22,248
Federal funds sold	28,000	2,000
Investment securities (approximate market value \$55,790 and \$58,209)	57,638	62,494
Loans:		
Commercial	125,191	99,483
Consumer installment	45,018	38,285
Real estate mortgages	48,663	40,209
Real estate construction	11,144	9,253
	230,016	187,230
Less: Allowance for loan losses	2,267	1,891
Net loans	227,749	185,339
Premises and equipment, net	7,922	7,137
Investment in real estate properties	5,115	6,710
Investment in real estate limited partnership	4,493	4,743
Other real estate owned	380	942
Accrued interest receivable	3,325	2,641
Other assets	4,465	3,214
Total assets	\$354,688	\$297,468

LIABILITIES AND SHAREHOLDERS' EQUITY
Deposits:

Noninterest-bearing demand	\$ 67,277	\$ 57,809
Interest-bearing demand	80,364	84,204
Savings	31,206	32,968
Time certificates, \$100,000 and over	5,281	3,253
Other time certificates	137,552	93,770
Total deposits	321,680	272,004
Accrued interest payable	3,951	2,664
Other liabilities	1,732	1,011
Deferred income taxes	16	516
Debt guarantee for Employee Stock Ownership Plan	480	--
Long-term debt	586	1,451
Total liabilities	328,445	277,646

Commitments and contingencies (Note M)

Shareholders' equity:*

Preferred stock, no par value: Authorized 1,000,000 shares;		
Series A, issued and outstanding 26,724 shares	2,544	2,544
Series B, issued and outstanding 8,000 shares	3,899	3,899
Series C, issued and outstanding 16,900 shares	2,187	--
Common stock, no par value: Authorized 20,000,000 shares;		
issued and outstanding 1,599,047 and 1,164,014 shares	18,145	11,815
Retained earnings (deficit)	(52)	1,564
Debt guarantee for Employee Stock Ownership Plan	(480)	--
Total shareholders' equity	26,243	19,822
Total liabilities and shareholders' equity	\$354,688	\$297,468

* Amounts reflect a 20% common stock dividend declared January 9, 1990.

See Notes to Consolidated Financial Statements



CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except earnings per share)

	Years Ended December 31,		
	1989	1988	1987
Interest income:			
Interest and fees on loans	\$25,106	\$20,676	\$17,505
Interest on federal funds sold	664	126	365
Interest on investment securities--taxable	3,277	3,912	3,238
Interest on investment securities--tax exempt	1,095	800	519
Total interest income	30,142	25,514	21,627
Interest expense:			
Interest on interest-bearing demand deposits	4,505	4,716	4,005
Interest on savings	1,687	1,644	1,129
Interest on time certificates of deposit	9,404	6,396	5,657
Interest on time certificates of deposit, \$100,000 and over	364	247	262
Interest on short-term borrowing	397	74	42
Interest on long-term debt	158	476	469
Total interest expense	16,515	13,553	11,564
Net interest income	13,627	11,961	10,063
Provision for loan losses	1,000	780	480
Net interest income after provision for loan losses	12,627	11,181	9,583
Other income:			
Service charges and fees	2,561	2,536	2,016
Other income	412	758	349
Investment securities gains (losses)	(186)	(5)	179
Total other income	2,787	3,289	2,544
Other expenses:			
Salaries and related expenses	5,739	5,165	4,415
Other	4,844	5,308	5,042
Total other expenses	10,583	10,473	9,457
Net income before income taxes	4,831	3,997	2,670
Income taxes	1,676	1,469	930
Net income	\$ 3,155	\$ 2,528	\$ 1,740
Preferred stock dividends	736	461	295
Net income available to common shareholders	\$ 2,419	\$ 2,067	\$ 1,445
Earnings per common share*	\$ 1.71	\$ 1.48	\$ 1.00

* Per share amounts reflect a 20% common stock dividend declared January 9, 1990.

See Notes to Consolidated Financial Statements


**CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY**

 Years ended December 31, 1989, 1988 and 1987
 (In thousands, except share amounts)

	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Common Stock		Retained Earnings (Deficit)	Debt Guarantee for ESOP	Total
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount			
Balance, January 1, 1987	26,724	\$2,544	--	\$ --	--	\$ --	893,660	\$ 7,812	\$2,544	\$ --	\$12,900
Capital Notes converted to Common Stock	--	--	--	--	--	--	5,518	66	--	--	66
Series A Preferred Stock cash dividends	--	--	--	--	--	--	--	--	(295)	--	(295)
Common Stock cash dividends	--	--	--	--	--	--	--	--	(247)	--	(247)
Net income	--	--	--	--	--	--	--	--	1,740	--	1,740
Balance, December 31, 1987	26,724	2,544	--	--	--	--	899,178	7,878	3,742	--	14,164
8% Common Stock dividend, less cash paid for fractional shares	--	--	--	--	--	--	71,295	1,034	(1,043)	--	(9)
20% Common Stock dividend, less cash paid for fractional shares	--	--	--	--	--	--	193,541	2,903	(2,911)	--	(8)
Series B Preferred Stock issued	--	--	8,000	3,899	--	--	--	--	--	--	3,899
Series A Preferred Stock cash dividends	--	--	--	--	--	--	--	--	(295)	--	(295)
Series B Preferred Stock cash dividends	--	--	--	--	--	--	--	--	(166)	--	(166)
Common Stock cash dividends	--	--	--	--	--	--	--	--	(291)	--	(291)
Net income	--	--	--	--	--	--	--	--	2,528	--	2,528
Balance, December 31, 1988	26,724	2,544	8,000	3,899	--	--	1,164,014	11,815	1,564	--	19,822
Common Stock issued	--	--	--	--	--	--	169,000	2,672	--	--	2,672
20% Common Stock dividend declared January 9, 1990	--	--	--	--	--	--	266,033	3,658	(3,658)	--	--
Series C Preferred Stock issued	--	--	--	--	16,900	2,187	--	--	--	--	2,187
Series A Preferred Stock cash dividends	--	--	--	--	--	--	--	--	(295)	--	(295)
Series B Preferred Stock cash dividends	--	--	--	--	--	--	--	--	(421)	--	(421)
Series C Preferred Stock cash dividends	--	--	--	--	--	--	--	--	(20)	--	(20)
Common Stock cash dividends	--	--	--	--	--	--	--	--	(377)	--	(377)
Net income	--	--	--	--	--	--	--	--	3,155	--	3,155
Debt guarantee for ESOP	--	--	--	--	--	--	--	--	--	(480)	(480)
Balance, December 31, 1989	26,724	\$2,544	8,000	\$3,899	16,900	\$2,187	1,599,047	\$18,145	\$ (52)	\$ (480)	\$26,243

See Notes to Consolidated Financial Statements



CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years ended December 31,	
	1989	1988
Operating activities:		
Net income	\$ 3,155	\$ 2,528
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,000	780
Provision for losses on investment real estate properties	146	160
Provision for depreciation and amortization	996	1,040
Amortization of investment security discounts	75	108
Deferred income taxes	500	(144)
Investment security (gains) losses	186	(5)
Investment in real estate properties (gains) losses	(319)	80
Increase in interest receivable	(684)	(199)
Increase in interest payable	1,287	191
Decrease in other real estate owned	562	641
Increase in other operating assets and liabilities	(1,843)	95
Net cash provided by operating activities	5,061	5,275
Investing activities:		
Proceeds from sales of investment securities	33,431	72,670
Purchases of investment securities	(28,836)	(67,553)
Net increase in loans	(43,411)	(20,263)
Net change in premises and equipment	(1,468)	(831)
Proceeds from sale of investment in real estate properties	6,495	2,668
Purchases and additions to investment in real estate properties	(4,727)	(2,426)
Return of investment in real estate limited partnership	250	257
Net cash used by investing activities	(38,266)	(15,478)
Financing activities:		
Net increase in noninterest-bearing demand deposits	9,467	10,446
Net increase (decrease) in interest-bearing demand deposits, and savings accounts	(5,602)	6,968
Net increase in time certificates of deposit	45,810	1,732
Proceeds from sale of common stock	2,672	--
Proceeds from sale of preferred stock	2,187	3,899
Cash dividends -- preferred	(736)	(461)
Cash dividends -- common	(375)	(291)
Term loan retired	--	(3,500)
Subordinated debt retired	(865)	(393)
Net cash provided by financing activities	52,558	18,400
Increase in cash and cash equivalents	19,353	8,197
Cash and cash equivalents at beginning of year	24,248	16,051
Cash and cash equivalents at end of year	\$43,601	\$24,248
Cash paid for taxes	\$ 1,825	\$ 1,380
Cash paid for interest expense	\$15,228	\$13,375
Non-cash debt guarantee for ESOP	\$ 480	\$ --

See Notes to Consolidated Financial Statements



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(In thousands)

Year Ended December 31,
1987

Financial resources were provided by (applied to):

Operations:

Net income \$ 1,740

Noncash items:

Depreciation and amortization 797

Provision for loan losses 480

Deferred income taxes (3)

Financial resources provided by operations 3,014

Preferred stock, cash dividend (295)

Common stock, cash dividend (247)

Net financial resources provided by operations 2,472

Deposits and other financing activities:

Deposits:

Interest-bearing 50,580

Noninterest-bearing 1,965

52,545

Other financing activities:

Issuance of common stock 66

Long-term debt borrowings 3,500

Long-term debt retired (1,636)

Subordinated debt retired (1,791)

Net effect of stock dividend --

139

Other activities:

Cash and due from banks 3,244

Premises and equipment, net (985)

Other real estate owned, net 108

Other, net (2,122)

245

Increase in financial resources invested in earning assets \$ 55,401

Increase (decrease) in earning assets:

Interest-bearing deposits \$ 550

Federal funds sold (200)

Investment securities 26,289

Loans held for sale (2,134)

Loans, net 25,975

Investment in real estate properties (79)

Investment in real estate limited partnership 5,000

Increase (decrease) in earning assets \$ 55,401

See Notes to Consolidated Financial Statements



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1989, 1988 and 1987

NOTE A - GENERAL SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of TriCo Bancshares (the "Company") conform to generally accepted accounting principles and general practices within the banking industry. The following are descriptions of the more significant accounting and reporting policies.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, Tri Counties Bank (the "Bank"), and the wholly-owned subsidiaries of the Bank. All significant intercompany accounts and transactions have been eliminated.

Investment Securities

Investment securities are carried at cost, adjusted for the accretion of discounts and amortization of premiums using the interest method. Amortization and accretion are recognized as adjustments to interest income. Gains and losses (determined on a specific identification method) on sales of investment securities are presented separately in the statements of income. The Bank intends to hold investment securities to maturity and, therefore, a valuation allowance is not provided for the excess of carrying value over market value at December 31, 1989 and 1988, respectively.

Loans

Loans are reported at the principal amount outstanding, net of unearned income and the allowance for loan losses. Interest on loans is calculated by using the simple interest method on the daily balance of the principal amount outstanding.

Loan origination and commitment fees and certain direct loan origination costs are being deferred, and the net amount amortized as an adjustment of the related loan's yield over the estimated life of the loan.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on loans is generally discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal or when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect

to interest and principal and when, in the judgment of Management, the loans are estimated to be fully collectible as to both principal and interest.

Direct finance leases are carried net of unearned income. Income from these leases is recognized on a basis which generally produces a level yield on the outstanding balances receivable.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when Management believes that the collectibility of the principal is unlikely or, with respect to consumer installment loans, according to an established delinquency schedule. The allowance is an amount that Management believes will be adequate to absorb losses inherent in existing loans, leases and commitments to extend credit, based on evaluations of the collectibility and prior loss experience of loans, leases and commitments to extend credit. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, commitments, and current and anticipated economic conditions that may affect the borrower's ability to pay.

Intangible Assets

Intangible assets (included in other assets) represent the purchased deposit account base (core deposits) acquired in connection with the acquisition of Shasta County Bank. Core deposits represent the present value of the expected future benefits to be realized from the acquired bank's deposit base, comprised principally of demand and savings deposits. Core deposits are amortized over 10 years.

Investment in Real Estate Limited Partnership

An investment in a real estate limited partnership of \$4,493,000 is carried at cost net of cumulative cash distribution received of \$507,000. A ready market does not exist for these investments. Management has estimated the market value to be the same as the carrying value.

Premises and Equipment

Premises (including those acquired under capital lease) and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expenses are computed using the straight-line method over the shorter of the estimated useful life of the asset or lease term.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 1989, 1988 and 1987

Investment in Real Estate Properties

Investment in real estate is stated at the lower of cost or market and consists of properties either acquired directly or transferred from other real estate owned for the purpose of development or to be held as income-earning assets.

Subsequent to acquisition or transfer, properties included in the investment in real estate account are periodically appraised. Any decline in value below the carrying amount of a property is included in other expenses. Income and expenses on the investment in real estate are included in other expenses.

Other Real Estate Owned

Real estate acquired by foreclosure is carried at the lower of the recorded investment in the property or its fair value. Prior to foreclosure, the value of the underlying loan is written down to the fair market value of the real estate to be acquired by a charge to the allowance for loan losses, when necessary. Any subsequent write-downs are included in other expenses. Expenses of such properties, net of related income, and gains and losses on their disposition are included in other expenses.

Income Taxes

Deferred income taxes are provided for timing differences between items of income or expense reported in the consolidated financial statements and those reported for income tax purposes.

In December 1987, Statement of Financial Accounting Standard No. 96 "Accounting for Income Taxes" was issued. Adoption of this standard is required by 1992. At this time, the Company does not expect that the implementation of the standard would have a material impact on its financial position or results of operations.

Earnings Per Common Share

Earnings per common share, restated to reflect a 20% stock dividend (see Note O), was computed based on the weighted average number of shares of common stock. The weighted average number of shares used in the computation of earnings per common share was 1,416,263, 1,396,817 and 1,460,968 for 1989, 1988 and 1987, respectively.

Other

Certain reclassifications have been made to the prior years' financial statements in order to conform with the classifications of the December 31, 1989 financial statements.

In 1988, the Company adopted Statement of Financial Accounting Standards No. 95 Statement of Cash Flows. The statement of changes in financial position for 1987 has not been restated, as permitted under the statement. For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold.

NOTE B - RESTRICTED CASH BALANCES

Reserves (in the form of deposits with the Federal Reserve Bank) of \$1,000,000 and \$600,000 were maintained to satisfy Federal regulatory requirements at December 31, 1989 and 1988, respectively.

NOTE C - INVESTMENT SECURITIES

The carrying amount and estimated market values of investment securities are summarized as follows:

	December 31, 1989		December 31, 1988	
	Carrying Value	Market Value	Carrying Value	Market Value
	(in thousands)			
U.S. Treasury, U.S. government agencies and corporations	\$32,302	\$31,006	\$45,296	\$41,508
State and political subdivisions	24,010	23,842	15,390	14,952
Other investments	1,326	942	1,808	1,749
	\$57,638	\$55,790	\$62,494	\$58,209

Investment securities with an aggregate carrying value of \$2,486,000 and \$910,000 at December 31, 1989 and 1988, respectively, were pledged as collateral for public deposits as required by law.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 1989, 1988 and 1987

NOTE D - ALLOWANCE FOR LOAN LOSSES

Transactions in the allowance for loan losses were as follows:

	Years Ended December 31,		
	1989	1988	1987
	(in thousands)		
Balance, beginning of year	\$1,891	\$1,518	\$1,350
Provision charged to operations	1,000	780	480
Loans charged off	(794)	(521)	(488)
Recoveries of loans previously charged off	170	114	176
Balance, end of year	\$2,267	\$1,891	\$1,518

Loans classified as nonaccrual amounted to approximately \$403,000, \$701,000, and \$533,000 at December 31, 1989, 1988 and 1987. If interest on those loans had been accrued, such income would have approximated \$68,000, \$86,000, and \$97,000 in 1989, 1988 and 1987, respectively.

NOTE E - PREMISES AND EQUIPMENT

Premises and equipment are comprised of:

	December 31,	
	1989	1988
	(in thousands)	
Premises (including \$831,000 acquired under capital lease)	\$7,006	\$6,260
Furniture and equipment	3,910	3,220
	10,916	9,480
Less:		
Accumulated depreciation	(4,016)	(3,393)
Accumulated amortization of capital lease	(274)	(246)
	6,626	5,841
Land	1,296	1,296
	\$7,922	\$7,137

Depreciation and amortization of premises and equipment amounted to \$711,000, \$643,000 and \$553,000 in 1989, 1988 and 1987, respectively.

NOTE F - INCOME TAXES

The provision (credit) for income taxes is comprised of:

	Years Ended December 31,		
	1989	1988	1987
	(in thousands)		
Current:			
Federal State	\$1,557	\$1,116	\$671
	619	497	262
	2,176	1,613	933
Deferred:			
Federal State	(354)	(140)	4
	(146)	(4)	(7)
	(500)	(144)	(3)
	\$1,676	\$1,469	\$930

Deferred income tax expense resulted from the following:

	(in thousands)		
Increase (reduce) deferred income taxes:			
Tax credits	\$ --	\$ --	\$ 62
Difference between cash and accrual basis of accounting	(36)	(36)	(41)
Provision for loan losses	(176)	(173)	(95)
Provision for loss on other real estate	39	(61)	18
Amortization of core deposits	(110)	(110)	(219)
Use of accelerated depreciation methods for tax purposes	(6)	32	61
Capitalized leases	(9)	(12)	(14)
Direct financing leases	(30)	(12)	(35)
Leveraged leases	(257)	255	300
Limited partnership tax benefit	339	256	--
Retirement compensation	(75)	(62)	--
Loss on investment in real estate	(66)	--	--
Deferred loan fees	(139)	(177)	--
Other differences	26	(44)	(40)
	\$ (500)	\$ (144)	\$ (3)

The effective tax rate and the statutory federal income tax rate are reconciled as follows:

Federal statutory income tax rate	34.0%	34.0%	40.0%
State income taxes, net of federal tax benefit	7.1	8.2	5.7
Tax-exempt interest on municipal obligations	(7.7)	(5.7)	(6.6)
Other	1.3	.3	(4.3)
Effective Tax Rate	34.7%	36.8%	34.8%



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 1989, 1988 and 1987

NOTE G - LONG-TERM DEBT

Long-term debt is as follows:

	December 31,	
	1989	1988
	(in thousands)	
14-1/4 % subordinated capital notes	\$ --	\$ 865
Capital lease obligation on premises, effective interest rate of 13% payable monthly in varying amounts through December 1, 2009.	<u>586</u>	<u>586</u>
	<u>\$ 586</u>	<u>\$ 1,451</u>

NOTE H - OTHER OPERATING EXPENSES

The components of other operating expenses are as follows:

	Years Ended December 31,		
	1989	1988	1987
	(in thousands)		
Equipment and data processing	\$ 990	\$ 1,029	\$ 923
Occupancy	917	814	759
Advertising	285	178	259
Net other real estate owned expense	(95)	316	180
Net (gains) losses on investment in real estate	(86)	56	201
Professional fees	310	441	303
Other	2,523	2,474	2,417
	<u>\$ 4,844</u>	<u>\$ 5,308</u>	<u>\$ 5,042</u>

NOTE I - RETIREMENT PLANS

Substantially all employees with at least one year of service are covered by discretionary employee stock ownership and discretionary profit-sharing plans. Contributions are made to each plan at the discretion of the Board of Directors. A contribution to the discretionary employee stock ownership plan of \$220,000 in 1989 and \$192,000 in 1988 is included in salary expense.

In 1987, the Company adopted the supplemental retirement plan for directors and the supplemental executive retirement plan covering key executives. The plans are nonqualified defined benefit plans and are unsecured and unfunded. The Company has purchased insurance on the lives of the participants and intends to use the cash values of these policies (\$870,000 and \$479,000 at December 31, 1989 and 1988, respectively) to pay the retirement obligations.

The following table sets forth the plans' status:

	December 31,		
	1989	1988	1987
	(in thousands)		
Actuarial present value of benefit obligations:			
Vested benefit obligation	\$ (757)	\$ (534)	
Accumulated benefit obligation	\$ (795)	\$ (565)	
Projected benefit obligation for service rendered to date	\$ (893)	\$ (659)	
Plan assets at fair value	\$ --	\$ --	
Projected benefit obligation in excess of plan assets	\$ (893)	\$ (659)	
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	21	(80)	
Prior service cost not yet recognized in net periodic pension cost	2	--	
Unrecognized net obligation at transition	530	565	
Accrued pension cost included in other liabilities	\$ (340)	\$ (174)	
Net pension cost included the following components:			
Service cost-benefits earned during the period	\$ 57	\$ 41	\$ 18
Interest cost on projected benefit obligation	70	54	19
Actual return on plan assets	--	--	--
Net amortization and deferral	39	30	11
Net periodic pension cost	<u>\$ 166</u>	<u>\$ 125</u>	<u>\$ 32</u>

The net periodic pension cost was determined using a discount rate assumption of 8.5% for 1989 and 9% for prior years. The rates of increase in compensation used were 0 to 7%.

The Company also has an Executive Deferred Compensation Plan which allows directors and key executives designated by the Board of Directors of the Company to defer a portion of their compensation.

NOTE J - PREFERRED STOCK

On November 28, 1989 the Company issued 16,900 shares of 10% Cumulative Series C Preferred Stock. The Company may redeem the preferred stock in whole or in part at its option on or after November 28, 1993 at \$135 per share plus accrued and unpaid dividends. The preferred stock is nonvoting, has a dividend preference and a liquidation preference of \$135 per share plus accrued and unpaid dividends.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 1989, 1988 and 1987

On August 10, 1988 the Company issued 8,000 shares of 10-1/2% Cumulative Series B Preferred Stock. The Company may redeem the preferred stock in whole or in part at its option on or after August 1, 1995 at \$500 per share plus accrued and unpaid dividends. The preferred stock is nonvoting, has a dividend preference and a liquidation preference of \$500 per share plus accrued and unpaid dividends.

On July 31, 1985, the Company issued 26,724 shares of 11% Cumulative Series A Preferred Stock. The Company may redeem the preferred stock in whole or in part at its option on or after July 1, 1988 at \$100 per share plus accrued and unpaid dividends. The preferred stock is nonvoting, has a dividend preference and a liquidation preference of \$100 per share plus accrued and unpaid dividends. As of December 31, 1989, no shares had been redeemed by the Company.

NOTE K - DIVIDEND RESTRICTIONS

Dividends from the Bank may be paid to the Company to finance operations. The Bank is regulated by the Federal Deposit Insurance Corporation and the California State Banking Department. California banking laws limit dividends to the lesser of (1) retained earnings or (2) net income for the last three fiscal years, less cash distributions paid during such period. Under this regulation, the Bank may pay dividends without prior approval of \$4,639,000 as of December 31, 1989.

NOTE L - RELATED PARTY TRANSACTIONS

Certain directors, officers, and companies with which they are associated, were customers of, and had banking transactions with, the Company in the ordinary course of business. It is the Company's policy that all loans and commitments to lend to officers and directors be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other borrowers of the Bank. These loans totaled \$5,731,000 and \$3,776,000 at December 31, 1989 and 1988, respectively.

NOTE M - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not presented in the accompanying financial statements. The commitments and contingent liabilities include various guarantees, commitments to extend credit, and standby letters of credit. At December 31, 1989, undisbursed commercial loans and real estate loans amounted to \$24,127,000 and \$6,220,000, respectively. Standby letters of credit and guarantees totaled \$3,855,000 at December 31, 1989. The Bank does not anticipate any material losses as a result of the commitments and contingent liabilities.

The Bank has available unused lines of credit totaling \$19,000,000 for federal funds transactions.

The Bank is a defendant in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the Bank's financial position.

At December 31, 1989, future minimum commitments under noncancellable operating leases and one capital lease with initial or remaining terms of one year or more are as follows:

	Capital Lease	Operating Leases
	(in thousands)	
1990	\$ 77	\$ 403
1991	78	390
1992	79	329
1993	80	272
1994	81	210
Thereafter	1,336	2,396
Future minimum lease payments	1,731	\$4,000
Less amount representing interest	1,145	
Present value of future lease payments	\$ 586	

NOTE N - EMPLOYEE STOCK OWNERSHIP PLAN

In January 1984, the Company's Board of Directors approved the TriCo Bancshares Employee Stock Ownership Plan (ESOP) which is a noncontributory plan established to acquire shares of the Company's common stock for the benefit of all eligible employees.

Notes



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 1989, 1988 and 1987

During 1989, the ESOP arranged financing with a bank of \$600,000. The loan is to be repaid over a five-year period with interest at 90% of prime. The obligation of this plan to repay these borrowings is guaranteed by the Company. Current financial reporting practice requires this contingent liability to be recorded as debt with a corresponding charge to shareholders' equity. The Bank will make contributions to the ESOP sufficient to pay the interest and principal on the loan. The outstanding loan balance as of December 31, 1989 was \$480,000.

NOTE O - SUBSEQUENT EVENT

On January 9, 1990, the Board of Directors declared a 20% stock dividend to stockholders of record as of January 25, 1990. Accordingly, \$3,658,000 was transferred from retained earnings to common stock, based on a closing price of \$16.50 per common share.

NOTE P - TRICO BANCSHARES FINANCIAL STATEMENTS

TriCo Bancshares (Parent Only) Balance Sheets

Assets	December 31,	
	1989	1988
	(in thousands)	
Cash	\$ 367	\$ 194
Loans	300	350
Investment in Tri Counties Bank	26,285	20,217
Other assets	22	60
Total assets	\$26,974	\$20,821
Liabilities and shareholders' equity		
Liabilities:		
Long-term debt	\$ --	\$ 865
Deferred taxes	14	13
Other liabilities	237	121
Shareholders' equity:		
Preferred stock, no par value:		
Authorized 1,000,000 shares;		
Series A, issued and outstanding 26,724 shares	2,544	2,544
Series B, issued and outstanding 8,000 shares	3,899	3,899
Series C, issued and outstanding 16,900 shares	2,187	--
Common stock, no par value:		
Authorized 20,000,000 shares; issued and outstanding 1,599,047 and 1,164,014 shares	18,145	11,815
Retained earnings (deficit)	(52)	1,564
Total shareholders' equity	26,723	19,822
Total liabilities and shareholders' equity	\$ 26,974	\$ 20,821

Statements of Income

	Years Ended December 31,		
	1989	1988	1987
	(in thousands)		
Interest income	\$ 49	\$ 37	\$ 32
Interest expense on long-term debt	82	400	350
Administration expense	138	10	12
Total expense	220	410	362
Loss before equity in net income of Tri Counties Bank	(171)	(373)	(330)
Equity in net income of Tri Counties Bank	3,243	2,746	1,922
Income tax credits	83	155	148
Net income	\$3,155	\$2,528	\$1,740

Statements of Cash Flows

	Years ended December 31,		
	1989	1988	1987
	(in thousands)		
Operating activities:			
Net income	\$3,155	\$2,528	\$1,740
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed equity in Tri Counties Bank	(1,168)	(1,993)	(1,478)
Provision for depreciation and amortization	7	8	7
Deferred income taxes	1	22	442
Increase in other operating assets and liabilities	147	87	(66)
Net cash provided by operating activities	2,142	652	645
Investing activities:			
Principal collected on loan	50	--	--
Capital contributed to Tri Counties Bank	(4,900)	--	(2,400)
Net cash used by investing activities	(4,850)	--	(2,400)
Financing activities:			
Issuance of common stock	2,672	--	66
Issuance of preferred stock	2,187	3,899	--
Long-term debt incurred	--	--	3,500
Cash dividends -- preferred	(737)	(461)	(295)
Cash dividends -- common	(376)	(291)	(247)
Term loan retired	--	(3,500)	(1,260)
Subordinated debt retired	(865)	(393)	--
Net cash provided by financing activities	2,881	(746)	1,764
Increase in cash and cash equivalents	173	(94)	9
Cash and cash equivalents at beginning of year	194	288	279
Cash and cash equivalents at end of year	\$ 367	\$ 194	\$ 288

See Notes to Consolidated Financial Statements



COMMON STOCK INFORMATION

Market Information. The Common Stock of the Company is not listed on any exchange nor is it listed with NASDAQ. There is only a limited trading market in the Company's Common Stock. Since August 15, 1986, Sutro & Co. Incorporated has been a market-maker in the Common Stock of the Company and since December 1, 1988, Hoefler & Arnett Incorporated has been a market-maker in the Company's Common Stock. The following table summarizes those trades of which the Company has knowledge, setting forth the approximate high ask and low bid prices for the periods indicated. The prices indicated below may not necessarily represent actual transactions.

Quarter Ended:	Prices of the Company's Common Stock ^{1,2}		Approximate Trading Volume (in shares)
	High	Low	
March 31, 1988	\$ 9.48	\$ 8.84	19,318
June 30, 1988	10.42	9.73	11,570
September 30, 1988	10.77	9.73	15,381
December 31, 1988	10.77	10.07	21,993
March 31, 1989	14.17	12.50	84,046
June 30, 1989	14.17	13.33	33,258
September 30, 1989	14.17	12.92	46,485
December 31, 1989	14.17	12.92	14,722

¹As estimated by the Company, based upon trades of which the Company was aware.

²The Company is not aware of the price of some of the trades included in the Approximate Trading Volume.

³Figures adjusted to reflect the 8% stock dividend paid on March 31, 1988 to holders on record February 1, 1988, the 20% stock dividend paid on December 30, 1988 to holders on record November 30, 1988, and the 20% stock dividend paid on February 15, 1990 to holders on record January 25, 1990.

Holders. As of December 31, 1989, there were approximately 1,587 holders of record of the Company's Common Stock.

Dividends. On each of March 31 and December 31, 1988, and June 30 and December 29, 1989, the Company paid cash dividends of \$.15 per share of Common Stock. On December 10, 1987, the Company paid a cash dividend of \$.275 per share of Common Stock. The Company has paid no other cash dividends during the last three fiscal years, but on March 31, 1988, and December 31, 1988, the Company paid stock dividends of 8% and 20%, respectively. A 20% stock dividend was also paid on February 15, 1990. The holders of Common Stock of the Company are entitled to receive cash dividends when and as declared by the Board of Directors, out of funds legally available therefor, subject to the restrictions set forth in the California General Corporation Law (the "Corporation Law"), and the dividend rights of the holders of the Series A, Series B and Series C Preferred Stock.

The Certificate of Determination of Preferences of the Series A, Series B and Series C Preferred Stock prohibits the payment of dividends to the holders of Common Stock if the Company is not current in its payments of dividends to the Preferred Stock shareholders. The Corporation Law provides that a corporation may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution.

The Company, as sole shareholder of the Bank, is entitled to dividends when and as declared by the Bank's Board of Directors, out of funds legally available therefor, subject to the powers of the Federal Deposit Insurance Corporation (the "FDIC") and the restrictions set forth in the California Financial Code (the "Financial Code"). The Financial Code provides that a bank may not make any distributions in excess of the lesser of: (i) the bank's retained earnings, or (ii) the bank's net income for the last three fiscal years, less the amount of any distributions made by the bank to its shareholders during such period. However, a bank may, with the prior approval of the California Superintendent of Banks (the "Superintendent"), make a distribution to its shareholders of up to the greater of (A) the bank's retained earnings, (B) the bank's net income for its last fiscal year, or (C) the bank's net income for its current fiscal year. If the Superintendent determines that the shareholders' equity of a bank is inadequate or that a distribution by the bank to its shareholders would be unsafe or unsound, the Superintendent may order a bank to refrain from making a proposed distribution. The FDIC may also order a bank to refrain from making a proposed distribution when, in its opinion, the payment of such would be an unsafe or unsound practice. The Bank paid cash dividends in the aggregate amount of \$2,075,000 in 1989.

The Federal Reserve Act limits the loans and advances that the Bank may make to its affiliates. For purposes of such Act, the Company is an affiliate of the Bank. The Bank may not make any loans, extensions of credit or advances to the Company if the aggregate amount of such loans, extensions of credit, advances and any repurchase agreements and investments exceeds 10% of the capital stock and surplus of the Bank. Any such permitted loan or advance by the Bank must be secured by collateral of a type and value set forth in the Federal Reserve Act.


NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 1989, 1988 and 1987

During 1989, the ESOP arranged financing with a bank of \$600,000. The loan is to be repaid over a five-year period with interest at 90% of prime. The obligation of this plan to repay these borrowings is guaranteed by the Company. Current financial reporting practice requires this contingent liability to be recorded as debt with a corresponding charge to shareholders' equity. The Bank will make contributions to the ESOP sufficient to pay the interest and principal on the loan. The outstanding loan balance as of December 31, 1989 was \$480,000.

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Other assets	22	60
Total assets	\$26,974	\$20,821
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Liabilities:		
Long-term debt	\$ --	\$ 865
Deferred taxes	14	13
Other liabilities	237	121
Shareholders' equity:		
Preferred stock, no par value:		
Authorized 1,000,000 shares;		
Series A, issued and outstanding 26,724 shares	2,544	2,544
Series B, issued and outstanding 8,000 shares	3,899	3,899
Series C, issued and outstanding 16,900 shares	2,187	--
Common stock, no par value:		
Authorized 20,000,000 shares; issued and outstanding 1,599,047 and 1,164,014 shares	18,145	11,815
Retained earnings (deficit)	(52)	1,564
Total shareholders' equity	26,723	19,822
Total liabilities and shareholders' equity	\$ 26,974	\$ 20,821

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	Years Ended December 31,		
	1989	1988	1987
	(in thousands)		
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Equity in net income of Tri Counties Bank	3,243	2,746	1,922
Income tax credits	83	155	148
Net income	\$3,155	\$2,528	\$1,740

Statements of Cash Flows

	Years ended December 31,		
	1989	1988	1987
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Operating activities:			
Net income	\$3,155	\$2,528	\$1,740
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed equity in Tri Counties Bank	(1,168)	(1,993)	(1,478)
Provision for depreciation and amortization	7	8	7
Deferred income taxes	1	22	442
Increase in other operating assets and liabilities	147	87	(66)
Net cash provided by operating activities	2,142	652	645
Investing activities:			
Principal collected on loan	50	--	--
Capital contributed to Tri Counties Bank	(4,900)	--	(2,400)
Net cash used by investing activities	(4,850)	--	(2,400)
Financing activities:			
Issuance of common stock	2,672	--	66
Issuance of preferred stock	2,187	3,899	--
Long-term debt incurred	--	--	3,500
Cash dividends -- preferred	(737)	(461)	(295)
Cash dividends -- common	(376)	(291)	(247)
Term loan retired	--	(3,500)	(1,260)
Subordinated debt retired	(865)	(393)	--
Net cash provided by financing activities	2,881	(746)	1,764
Increase in cash and cash equivalents	173	(94)	9
Cash and cash equivalents at beginning of year	194	288	279
Cash and cash equivalents at end of year	\$ 367	\$ 194	\$ 288



COMMON STOCK INFORMATION

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Quarter Ended:	Prices of the Company's Common Stock ^{1,2}		Approximate Trading Volume (in shares)
	High	Low	
March 31, 1988	\$ 9.48	\$ 8.84	19,318
June 30, 1988	10.42	9.73	11,570
September 30, 1988	10.77	9.73	15,381
December 31, 1988	10.77	10.07	21,993
March 31, 1989	14.17	12.50	84,046
June 30, 1989	14.17	13.33	33,258
September 30, 1989	14.17	12.92	46,485
December 31, 1989	14.17	12.92	14,722

¹As estimated by the Company, based upon trades of which the Company was aware. The Company is not aware of the price of some of the trades included in the Approximate Trading Volume.

²Figures adjusted to reflect the 8% stock dividend paid on March 31, 1988 to holders on record February 1, 1988, the 20% stock dividend paid on December 30, 1988 to holders on record November 30, 1988, and the 20% stock dividend paid on February 15, 1990 to holders on record January 25, 1990.

Holders. As of December 31, 1989, there were approximately 1,587 holders of record of the Company's Common Stock.

Dividends. On each of March 31 and December 31, 1988, and June 30 and December 29, 1989, the Company paid cash dividends of \$.15 per share of Common Stock. On December 10, 1987, the Company paid a cash dividend of \$.275 per share of Common Stock. The Company has paid no other cash dividends during the last three fiscal years, but on March 31, 1988, and December 31, 1988, the Company paid stock dividends of 8% and 20%, respectively. A 20% stock dividend was also paid on February 15, 1990. The holders of Common Stock of the Company are entitled to receive cash dividends when and as declared by the Board of Directors, out of funds legally available therefor, subject to the restrictions set forth in the California General Corporation Law (the "Corporation Law"), and the dividend rights of the holders of the Series A, Series B and Series C Preferred Stock.

The Certificate of Determination of Preferences of the Series A, Series B and Series C Preferred Stock prohibits the payment of dividends to the holders of Common Stock if the Company is not current in its payments of dividends to the Preferred Stock shareholders. The Corporation Law provides that a corporation may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution.

The Company, as sole shareholder of the Bank, is entitled to dividends when and as declared by the Bank's Board of Directors, out of funds legally available therefor, subject to the powers of the Federal Deposit Insurance Corporation (the "FDIC") and the restrictions set forth in the California Financial Code (the "Financial Code"). The Financial Code provides that a bank may not make any distributions in excess of the lesser of: (i) the bank's retained earnings, or (ii) the bank's net income for the last three fiscal years, less the amount of any distributions made by the bank to its shareholders during such period. However, a bank may, with the prior approval of the California Superintendent of Banks (the "Superintendent"), make a distribution to its shareholders of up to the greater of (A) the bank's retained earnings, (B) the bank's net income for its last fiscal year, or (C) the bank's net income for its current fiscal year. If the Superintendent determines that the shareholders' equity of a bank is inadequate or that a distribution by the bank to its shareholders would be unsafe or unsound, the Superintendent may order a bank to refrain from making a proposed distribution. The FDIC may also order a bank to refrain from making a proposed distribution when, in its opinion, the payment of such would be an unsafe or unsound practice. The Bank paid cash dividends in the aggregate amount of \$2,075,000 in 1989.

The Federal Reserve Act limits the loans and advances that the Bank may make to its affiliates. For purposes of such Act, the Company is an affiliate of the Bank. The Bank may not make any loans, extensions of credit or advances to the Company if the aggregate amount of such loans, extensions of credit, advances and any repurchase agreements and investments exceeds 10% of the capital stock and surplus of the Bank. Any such permitted loan or advance by the Bank must be secured by collateral of a type and value set forth in the Federal Reserve Act.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As the Company has not commenced any business operations independent of the Bank, its only subsidiary, the following discussion pertains primarily to the activities of the Bank.

(A) RESULTS OF OPERATIONS

The following is a summary of operations for the five years ended December 31, 1989 and Management's discussion and analysis of the significant changes in income and expense accounts presented therein for the most recent two

years -- each as compared with its respective prior period. This information should be read in conjunction with the financial statements and notes related thereto appearing elsewhere in this Annual Report.

	Years Ended December 31,				
	1989	1988 ¹	1987 ¹	1986 ¹	1985 ¹
	(in thousands, except earnings per share amounts)				
Interest income:					
Interest and fees on loans	\$ 25,106	\$ 20,676	\$ 17,505	\$ 16,781	\$ 14,868
Interest on investment securities--taxable	3,277	3,912	3,238	1,155	1,172
Interest on investment securities--tax free ²	1,631	1,192	867	1,489	1,538
Interest on time deposits and federal funds sold	664	126	365	331	183
Total interest income	30,678	25,906	21,975	19,756	17,761
Interest expense:					
Interest on deposits	15,960	13,003	11,053	9,352	8,850
Interest on short-term borrowing	397	74	42	6	45
Interest on long-term debt	158	476	469	581	664
Total interest expense	16,515	13,553	11,564	9,939	9,559
Net interest income	14,163	12,353	10,411	9,817	8,202
Less provision for loan losses	1,000	780	480	878	698
Net interest income after provision for loan losses	13,163	11,573	9,931	8,939	7,504
Other income:					
Gain (loss) on security transactions	(186)	(5)	179	1,013	515
Service charges and other	2,973	3,294	2,365	1,924	1,537
Total other income	2,787	3,289	2,544	2,937	2,052
Other expenses:					
Salaries and employee benefits	5,739	5,165	4,415	3,989	3,720
Other operating expenses	4,844	5,308	5,042	5,013	3,728
Total other expenses	10,583	10,473	9,457	9,002	7,448
Income before provision for income taxes	5,367	4,389	3,018	2,874	2,108
Provision (credit) for income taxes--actual	1,676	1,469	930	750	271
Tax equivalent adjustment	536	392	348	684	710
Net income	\$ 3,155	\$ 2,528	\$ 1,740	\$ 1,440	\$ 1,127
Earnings per common share	\$ 1.71	\$ 1.48	\$ 1.00	\$.78	\$.68
Selected Balance Sheet Information					
Total Assets	\$354,688	\$297,468	\$275,676	\$222,664	\$173,684
Long-term Obligations	\$ 586	\$ 1,451	\$ 5,343	\$ 5,270	\$ 4,667
Preferred Stock	\$ 8,630	\$ 6,443	\$ 2,544	\$ 2,544	\$ 2,544

¹Certain reclassifications have been made in the 1988, 1987, 1986 and 1985 summary of operations to conform to classifications in 1989.

²Interest on tax-free securities is reported on a tax equivalent basis of 1.49 for 1989 and 1988; 1.67 for 1987; 1.85 for 1986 and 1985.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(A) RESULTS OF OPERATIONS (Continued)

Net Interest Income

Net interest income is the most significant contributor to the Bank's earnings. Net interest income represents the excess of interest and fees earned on interest-earning assets (loans, investment securities and federal funds sold) over the interest paid on deposits and borrowed funds. Net interest income increased 15% to \$14,163,000 in 1989.

This increase in net interest income resulted from an increase in the volume and rates of interest-earning assets partly offset by an increase in volume and rates on interest-bearing liabilities. Net interest income in 1988¹ increased \$1,942,000 due to an increase in the volume of interest-earning assets offset by an increase in interest-bearing liabilities.

Table One: Analysis of Change in Net Interest Margin on Earning Assets

Assets	1989			1988			1987		
	Average Balance ¹	Income/Expense	Yield/Rate	Average Balance ¹	Income/Expense	Yield/Rate	Average Balance ¹	Income/Expense	Yield/Rate
(amounts in thousands)									
Earning assets:									
Loans ^{2,3}	\$202,946	\$25,106	12.37%	\$179,381	\$20,676	11.53%	\$150,385	\$17,505	11.64%
Investment securities ⁴	60,424	4,908	8.12%	62,062	5,104	8.22%	49,984	4,105	8.21%
Federal funds sold	7,415	664	8.95%	1,686	126	7.47%	5,395	365	6.77%
Total earning assets	<u>270,785</u>	<u>30,678</u>	<u>11.33%</u>	<u>243,129</u>	<u>25,906</u>	<u>10.66%</u>	<u>205,764</u>	<u>21,975</u>	<u>10.67%</u>
Cash and due from banks	17,471			15,581			11,320		
Premises and equipment	7,788			7,178			7,300		
Other assets	19,822			20,883			15,849		
Less: Allowance for loan losses	(2,064)			(1,673)			(1,558)		
Total	<u>\$313,802</u>			<u>\$285,098</u>			<u>\$238,675</u>		
Liabilities and shareholders' equity									
Interest-bearing liabilities:									
Demand deposits (interest-bearing)	\$ 76,153	4,505	5.92%	\$ 85,993	4,716	5.48%	\$ 73,993	4,267	5.77%
Savings deposits	31,112	1,687	5.42%	30,419	1,644	5.40%	20,560	1,129	5.50%
Time deposits	116,353	9,768	8.40%	93,587	6,643	7.10%	80,331	5,657	7.04%
Federal funds purchased	4,180	397	9.50%	886	74	8.35%	571	42	7.36%
Long-term debt	1,161	158	13.61%	4,126	476	11.54%	4,122	469	11.38%
Total interest-bearing liabilities	<u>228,959</u>	<u>16,515</u>	<u>7.21%</u>	<u>215,011</u>	<u>13,553</u>	<u>6.30%</u>	<u>179,577</u>	<u>11,564</u>	<u>6.44%</u>
Demand deposits (noninterest-bearing)	58,031			49,497			41,242		
Other liabilities	6,127			3,839			4,217		
Shareholders' equity	20,685			16,751			13,639		
Total	<u>\$313,802</u>			<u>\$285,098</u>			<u>\$238,675</u>		
Net interest income		<u>\$14,163</u>			<u>\$12,353</u>			<u>\$10,411</u>	
Net interest margin on earning assets ⁵		<u>5.23%</u>			<u>5.08%</u>			<u>5.06%</u>	

¹Average balances are computed principally on the basis of daily balances.

²Nonaccrual loans are included.

³Interest income on loans includes fees on loans of \$730,000 in 1989, \$666,000 in 1988, and \$588,000 in 1987.

⁴Interest income is stated on a tax equivalent basis of 1.49 in 1989 and 1988, and 1.67 in 1987.

⁵Net interest margin on earning assets is computed by dividing net interest income by total interest-earning assets. Net interest income is the difference between the total interest earned and the total interest paid.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(A) RESULTS OF OPERATIONS (Continued)

The accompanying tables analyze the changes in net interest income for 1989, 1988 and 1987. The table on Page 27 provides an analysis of change in net interest margin on earning assets setting forth average assets, liabilities and

shareholders' equity; interest income earned and interest expense paid and average rates earned and paid; and the net interest margin on earning assets. The table below presents an analysis of volume and rate change on net interest income and expense.

Table Two: Analysis of Volume and Rate Changes on Net Interest Income and Expenses

	1989 over 1988			1988 over 1987		
	Volume	Yield/ Rate ⁴	Total	Volume	Yield/ Rate ⁴	Total
(in thousands)						
Increase (decrease) in interest income:						
Loans ^{1,2}	\$2,915	\$1,515	\$4,430	\$3,343	\$ (172)	\$3,171
Investment securities ³	(133)	(63)	(196)	993	6	999
Federal funds sold	513	25	538	(277)	38	(239)
Total	3,295	1,477	4,772	4,059	(128)	3,931
Increase (decrease) in interest expense:						
Demand deposits (interest bearing)	(582)	371	(211)	658	(209)	449
Savings deposits	38	5	43	533	(18)	515
Time deposits	1,911	1,214	3,125	941	45	986
Federal funds purchased	313	10	323	26	6	32
Long-term borrowings	(404)	86	(318)	--	7	7
Total	1,276	1,686	2,962	2,158	(169)	1,989
Increase (decrease) in net interest income	\$2,019	\$ (209)	\$1,810	\$1,901	\$ 41	\$1,942

¹Nonaccrual loans are included.

²Interest income on loans includes fees on loans of \$730,000 in 1989, \$666,000 in 1988, and \$588,000 in 1987.

³Interest income is stated on a tax equivalent basis of 1.49 in 1989 and 1988 and 1.67 in 1987.

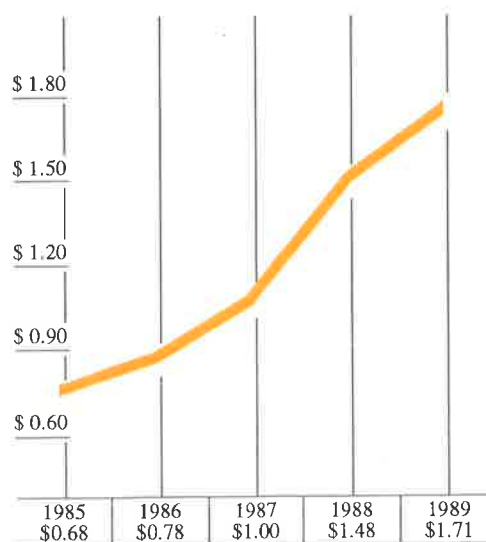
⁴The rate/volume variance has been included in the rate variance.

Net Interest Margin on Earning Assets

Net interest margin on earning assets increased to 5.23% in 1989 compared to 5.08% in 1988. This resulted primarily from an increased ratio of interest earning assets to interest-bearing liabilities partially offset by interest rates. Interest rates on interest-bearing liabilities increased more than the interest rates on interest earning assets.

The net interest margin on earning assets increased to 5.08% in 1988 from 5.06% in 1987. This change resulted primarily from decreased interest rates on interest-bearing liabilities. This decrease in rate on interest-bearing liabilities resulted from a decrease in the rate on interest-bearing demand deposits plus an increase in the volume of demand deposits and savings deposits with lower rates, offset partly by an increase in rates on time deposits.

Earnings Per Share





MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(A) RESULTS OF OPERATIONS (Continued)

Interest Income

Interest income increased 18% to \$30,678,000 in 1989 compared to an 18% growth rate in 1988. This increase is attributed primarily to a 10% increase in average earning assets and an increase in the yield on loans. The Bank's loan portfolio experienced continued growth in 1989, increasing 23% in 1989 and 12% in 1988. Interest rates increased on loans and federal funds sold, decreasing slightly on investment securities.

Interest income increased 18% to \$25,906,000 in 1988 compared to an 11% growth rate in 1987. This increase was attributed primarily to an 18% increase in average earning assets, offset by declining interest rates for loans and securities, and a slight decrease in loan fees.

The securities portfolio continued to decrease in 1989. This resulted in a decrease in the income from securities offset partially by an increase in the tax benefit from tax-free-security income. The tax benefit in 1989 was \$536,000 compared to \$392,000 in 1988.

Interest Expense

Interest expense increased 22% in 1989 primarily due to the increased volume of time deposits with higher interest rates and increased interest rates on interest-bearing demand deposits offset partially by a reduction of long-term debt. Average interest-bearing demand deposits decreased 11% resulting in a reduction of interest expense. Interest on federal funds increased primarily due to an increased amount of federal funds purchased. The mix of

deposits also changed substantially. Average time deposits increased to 41% of deposits in 1989 compared to 36% in 1988. Interest-bearing demand deposits decreased to 27% of deposits in 1989 compared to 33% in 1988. Average savings deposits remained at 11% of deposits. Noninterest-bearing deposits increased to 21% in 1989 compared to 19% in 1988.

Interest expense in 1988 increased 17% to \$13,553,000. This increase was primarily due to the increased volume of deposits and an increase in rates on time deposits partly offset by declining rates for interest-bearing demand deposits and a change in the mix of deposits. The average interest-bearing demand deposits, noninterest-bearing deposits and savings deposits increased more than time deposits. Primarily as a result of a marketing campaign to increase savings deposits in 1988 and 1987, average savings deposits increased 48% in 1988 and 49% in 1987. Total average deposits increased 20% in 1988. In 1988 the increased expense resulting from federal funds purchased resulted from an increase in the average funds purchased and an increased rate.

Retirement of \$865,000 of 14-1/4% subordinated debt on August 31, 1989 resulted in decreased interest expense for the remainder of 1989. Similarly, retirement of \$3,500,000 of a term loan in August 1988 resulted in reduced interest expense for 1989 and the remainder of 1988.

Service Charges and Fees and Other Income

Service charges and fees on deposit accounts increased to \$1,740,000 in 1989 compared to \$1,661,000 in 1988, a 5% increase. The increase primarily resulted from an increased volume of accounts and increased charges. This followed an increase of 26% in 1988. In 1988, the increase in other income resulted primarily from the gain on sales of loans and lease equipment in December 1988. Real estate loans of \$4,020,000 and SBA loans totaling \$2,050,000 were sold at gains of \$145,000 and \$98,000. Leased equipment was sold at a gain of \$250,000.

Securities Transactions

There was a net loss of \$186,000 and \$5,000 from securities transactions in 1989 and 1988. Net gains from securities transactions were \$179,000 in 1987. The Bank does not actively trade in the securities market but does elect, for liquidity purposes, to sell certain securities when it is to its advantage during periods of declining interest rates or to adjust the composition of the securities portfolio.

Interest Income (in thousands)





MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(A) RESULTS OF OPERATIONS (Continued)

Salaries and Benefits

Salary expenses increased in 1989 primarily due to increased staff, benefit costs and incentive payments. The increase in salary expenses in 1988 resulted primarily from the acquisition of the Yreka Branch in November 1987 and the implementation of an incentive pay program in 1988.

Other Expenses

Other operating expenses decreased 9% in 1989 compared to 1988. Net gain on Other Real Estate Owned was \$95,000 in 1989 compared to a net loss of \$316,000 in 1988. There was a net gain on investment properties of \$86,000 in 1989 compared to a net loss of \$56,000 in 1988.

Other operating expenses increased 5% in 1988. General and administrative expenses increased as a result of the growth of the Bank. Expenses on Other Real Estate Owned increased by \$136,000 in 1988. Losses and expenses on investment in Real Estate decreased in 1988 by \$145,000.

Provision for Income Taxes

The effective tax rate on income was 34.7% in 1989. The effective tax rate is greater than the federal statutory tax rate due to state tax expense of \$473,000 offset by tax-free interest of \$1,095,000 from investment securities. Similarly, the effective tax rate in 1988 was 36.8% due to state tax expense of \$436,000 offset by tax-free interest of \$800,000.

Return on Assets and Equity

The following sets forth certain ratios for the Company for the last three years (using average balance sheet data):

	1989	1988	1987
Return on assets	1.01%	.89%	.73%
Return on shareholders' equity	15.25%	15.09%	12.75%
Return on common shareholders' equity	17.20%	16.22%	13.01%
Shareholders' equity to assets	6.59%	5.88%	5.71%
Common shareholders' equity to assets	4.48%	4.47%	4.65%
Common shareholders' dividend payout ratio	14.63%	16.84%	17.11%

The return on average assets continued to increase to 1.01% at December 31, 1989 compared to .89% at December 31, 1988. This resulted primarily from an increase in income offset by growth of assets.

Similarly, return on average assets increased in 1988 from an increase in income offset by growth of assets.

The return on shareholders' equity in 1989 increased primarily due to increased income offset by increased shareholders' equity. The return on shareholders' equity increased in 1988 as a result of the Bank's increased earnings.

The return on common shareholders' equity increased in 1989 from increased income offset by the sale of additional stock. The return on common shareholders' equity in 1988 increased as a result of increased earnings.

Total shareholders' equity to assets in 1989 increased from both increased earnings and the issue of common and preferred stock. Total shareholders' equity to assets in 1988 increased as a result of earnings and a preferred stock issue.

Common shareholders' equity to assets remained the same in 1989 because the increase due to earnings was offset by the increase in average assets and preferred shareholders' dividends.

Common shareholders' equity to assets decreased in 1988 because the increase in common shareholders' earnings was more than offset by the increase in average assets and preferred shareholders' dividends.

The percentage payout per share has decreased as a result of increased earnings per share in 1989, 1988 and 1987. Cash dividends were \$.30, \$.30, and \$.275 in 1989, 1988 and 1987, respectively.

Shareholders' equity to assets increased in 1989 resulting from increased income offset by increased assets.

The common shareholders' dividend payout ratio decreased due to an increase in income in 1989.

(B) BALANCE SHEET ANALYSIS

Loans

Total loans increased \$42,786,000, an increase of 23% in 1989 compared to an increase of 12% in 1988. Growth was reflected in all categories with the mix of loans remaining substantially the same.

In 1988, total loans increased \$19,856,000, an increase of 12% compared to an increase of 18% in 1987. Growth was reflected in all loan categories in 1988 except banker's acceptances. The largest growth continues in commercial loans, \$15,611,000 in 1988 and \$17,479,000 in 1987. Consumer installment loans increased \$4,376,000 in 1988 compared to a decrease of \$865,000 in 1987. Real estate construction loans increased \$4,488,000 in 1988 compared to a decrease of \$3,697,000 in 1987. The Bank sold \$4,000,000 of mortgage loans in 1988, however, real estate mortgage loans increased \$2,919,000 in 1988 compared to an increase of \$2,517,000 in 1987.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(B) BALANCE SHEET ANALYSIS (Continued)

Loan Portfolio Composite

	December 31,				
	1989	1988	1987	1986	1985
	(in thousands)				
Commercial, financial and agricultural	\$119,860	\$ 98,513	\$ 82,902	\$ 65,423	\$ 50,336
Consumer installment	45,018	38,285	33,909	33,053	32,500
Real estate mortgage	48,663	40,209	37,290	34,773	19,259
Real estate construction	11,144	9,253	4,765	8,462	7,378
Banker's acceptances and commercial paper	5,331	970	8,508	--	--
Total loans	\$230,016	\$187,230	\$167,374	\$141,711	\$109,473

Nonaccrual, Past Due and Restructured Loans

The table below sets forth the nonaccrual loans and loans carried on an accrual basis but past due more than 90 days.

	December 31,				
	1989	1988	1987	1986	1985
	(in thousands)				
Nonaccrual loans	\$ 403	\$ 701	\$ 533	\$ 1,689	\$ 2,086
Past due loans (90 days or more)	352	338	1,292	1,598	1,812
Restructured debt	285	340	346	415	--
Total	\$ 1,040	\$ 1,379	\$ 2,171	\$ 3,702	\$ 3,898

Nonperforming loans continued to decrease in 1989 to .5% of total loans compared to .7% in 1988. This results from a combination of stronger credit policy and a strong local economy. Approximately \$68,000 of additional interest income would have been recorded if loans classified as nonaccrual had been current in 1989. Approximately \$38,000 of interest income was earned on restructured loans.

Commercial, real estate (other than 1-4 single family dwellings), and consumer loans are reviewed on an individual basis for reclassification to nonaccrual status when any one of the following occurs: the loan becomes 90 days past due as to interest or principal, the full and timely

collection of additional interest or principal becomes uncertain, the loan is classified doubtful by internal auditors or bank regulatory agencies, or a portion of the principal balance has been charged-off. The reclassification of loans as nonperforming does not necessarily reflect Management's judgment as to collectibility.

Allowance for Loan Losses Activity

In determining the adequacy of the loan loss allowance, Management relies primarily on its ongoing review of the loan portfolio, both to ascertain whether there are probable losses to be written off and to assess the loan portfolio in the aggregate. Problem loans are examined on an individual basis to determine estimated probable loss. In addition, Management considers current and projected loan mix and loan volumes, historical net loan loss experience for each loan category, and current and anticipated economic conditions affecting each loan category.

The Bank's net charge-off ratio for 1989 increased to .31% compared to .23% in 1988. Net charge-offs are expected to increase slightly in 1990, continuing to be primarily in commercial loans. The provision for loan losses increased in 1989 due to the increase in the loan portfolio. The provision for loan losses is expected to continue to increase in 1990 due to the continued increase in the loan portfolio.

Loans, Net





MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(B) BALANCE SHEET ANALYSIS (Continued)

The following table summarizes, for the years indicated, the activity in the allowance for loan losses:

	December 31,				
	1989	1988	1987	1986	1985
	(amounts in thousands)				
Balance, beginning of year	\$ 1,891	\$ 1,518	\$ 1,350	\$ 1,121	\$ 945
Provision charged to operations	1,000	780	480	878	698
Loans charged off:					
Commercial, financial and agricultural	(546)	(353)	(283)	(590)	(332)
Consumer installment	(248)	(158)	(191)	(241)	(292)
Real estate mortgage	--	(10)	(14)	(24)	(4)
Real estate construction	--	--	--	--	--
Total loans charged-off	(794)	(521)	(488)	(855)	(628)
Recoveries:					
Commercial, financial and agricultural	122	47	118	108	65
Consumer installment	48	67	58	98	34
Real estate mortgage	--	--	--	--	7
Real estate construction	--	--	--	--	--
Total recoveries	170	114	176	206	106
Net loans charged-off	(624)	(407)	(312)	(649)	(522)
Balance, year end	\$ 2,267	\$ 1,891	\$ 1,518	\$ 1,350	\$ 1,121
Average total loans	\$202,946	\$179,381	\$150,385	\$125,527	\$102,709
Ratios:					
Net charge-offs during period to average loans outstanding during period	.31%	.23%	.21%	.52%	.51%
Provision for loan losses to average loans outstanding	.49%	.43%	.32%	.70%	.68%
Allowance to loans at year end ¹	1.01%	1.02%	.96%	.95%	1.02%

¹Banker's acceptances and commercial paper are not included.

Investment in Real Estate Properties

At December 31, 1989, \$5,115,000 of property was held by a subsidiary of the Bank for the purposes of development or to be held as income-earning assets. Sales of \$6,495,000 offset by acquisition and development costs of \$4,727,000 resulted in a reduction in investment properties of \$1,595,000. Similarly the decrease of \$388,000 in 1988 resulted from sales of \$2,668,000 offset by acquisition and development costs of \$1,559,000.

Investment in Real Estate Limited Partnership

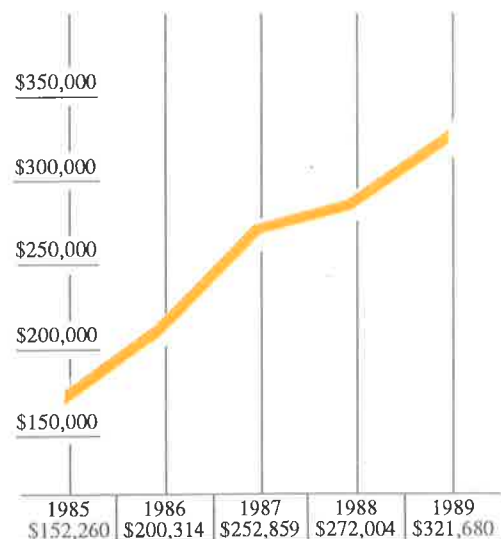
An investment in a real estate limited partnership was purchased in 1987 for \$5,000,000. The partnership invests in a diversified portfolio of real estate investments. Dividends of \$250,000 and \$257,000 in 1989 and 1988, respectively, were treated as a reduction of the investment.

Other Real Estate Owned

The reduction in Other Real Estate Owned continued in 1989 due to a favorable real estate market. Other Real Estate Owned declined by \$562,000 in 1989 to \$380,000. It decreased by \$801,000 in 1988.

Deposits

(in thousands)
December 31,





MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(B) BALANCE SHEET ANALYSIS (Continued)

Deposits

Total deposits increased 18% in 1989 to \$321,680,000. The major increase in deposits resulted from an increase in time deposits of \$45,810,000. Noninterest-bearing demand deposits increased \$9,468,000. However, interest-bearing demand deposits and savings each decreased 5%. This changes the mix of deposits. Time deposits increased to 44% of deposits at December 31, 1989 from 36% at December 31, 1988. Interest-bearing demand deposits decreased to 25% at December 31, 1989 compared to 31% at December 31, 1988. Similarly, savings deposits decreased to 10% at December 31, 1989 from 12% at December 31, 1988. Noninterest-bearing demand deposits continued to be 21% of total deposits.

Total deposits increased 7.6% in 1988 to \$272,004,000. The major increase in deposits in 1988 resulted from a 22% increase in noninterest-bearing demand deposits and a 23% increase in savings deposits; this changed the mix of deposits. In 1988, noninterest-bearing demand deposits increased \$10,446,000 to 21% of deposits compared to 19% of deposits in 1987. Savings deposits increased \$6,257,000 to 12% of deposits compared to 11% in 1987. The slower rate of increase in interest-bearing demand deposits and time deposits caused interest-bearing demand deposits to decrease to 31% of deposits in 1988 compared to 33% in 1987 and time deposits to be reduced to 36% of deposits in 1988 compared to 38% in 1987.

Long-Term Debt

In August 1989, the Company retired \$865,000 of 14-1/4% Subordinated Capital Notes. On July 1, 1988, the Company repaid \$393,000 of the 14-1/4% Subordinated Capital Notes.

In August 1988, the Company retired a \$3,500,000 term loan with the proceeds of a preferred stock offering.

Equity

The Company completed an offering of Common Stock and Series C Preferred Stock on November 28, 1989. The Company contributed \$4,900,000 of the proceeds to the Bank as a capital contribution. Management believes that the capital is adequate to support anticipated growth, meet the cash dividend requirements of the Company, and meet the future risk-based capital requirements of the Bank and the Company. The primary capital of the Company, as

defined by Federal Board Guidelines, increased to 8.0% at December 31, 1989, compared to 7.3% at December 31, 1988.

Liquidity and Interest Rate Sensitivity

Liquidity relates to the ability of the Company and the Bank to generate adequate cash to meet their respective needs. The principal cash requirements of the Bank are to meet the demands of its customers for loans and deposit withdrawals.

The overall liquidity of the Bank is enhanced by the sizable core deposits which provide a relatively stable funding base. The maturity distribution of certificates of deposit in denominations of \$100,000 or more is set forth in the following table. These deposits are generally more rate sensitive than other deposits and therefore more likely to be withdrawn to obtain higher yields elsewhere if available.

Certificates of Deposit in Denominations of \$100,000 or More

	Amount as of December 31,	
	1989	1988
	(in thousands)	
Time remaining until maturity:		
Less than 3 months	\$2,152	\$1,884
3 months to 6 months	1,479	1,007
6 months to 12 months	1,419	132
More than 12 months	230	230
Total	\$5,280	\$3,253

Loan demand also affects the Bank's liquidity position. The following table presents the maturities and sensitivity to changes in interest rates at December 31, 1989. The Bank's loan portfolio with a variable interest rate tied to its base commercial loan rate was 55% of loans in 1989. It increased to 58% of loans in 1988, compared to 44% of loans in 1987. This pricing minimizes the repricing risk associated with a changing rate environment.

TRICO BANCSHARES



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(B) BALANCE SHEET ANALYSIS (Continued)

Loan Maturities - December 31, 1989

	Within One Year	After One But Within 5 Years	After 5 Years	Total
(in thousands)				
Loans with predetermined interest rates:				
Commercial, financial and agricultural	\$ 5,275	\$ 5,132	\$ 15,150	\$ 25,557
Consumer installment	2,187	22,062	20,233	44,482
Real estate mortgage	272	1,310	29,988	31,570
Real estate construction	1,395	--	--	1,395
	9,129	28,504	65,371	103,004
Loans tied to Bank's base commercial loan rate:				
Commercial, financial and agricultural	36,017	17,329	45,613	98,959
Consumer installment	3	217	318	538
Real estate mortgage	--	--	17,900	17,900
Real estate construction	9,377	238	--	9,615
	45,397	17,784	63,831	127,012
Total loans	\$54,526	\$46,288	\$129,202	\$230,016

The interest rate sensitivity gap is the difference between total interest-sensitive assets and total interest-sensitive liabilities. The following repricing table presents the Bank's interest rate sensitivity position at December 31, 1989:

Interest Rate Sensitivity - December 31, 1989

	Repricing within:				
	3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years
(amounts in thousands)					
Interest-earning assets	\$164,921	\$ 3,570	\$ 9,700	\$ 52,437	\$ 85,026
Interest-bearing liabilities	185,039	43,184	14,705	11,425	50
Interest sensitivity gap	\$ (20,118)	\$ (39,614)	\$ (5,005)	\$ 41,012	\$ 84,976
Cumulative gap	\$ (20,118)	\$ (59,732)	\$ (64,737)	\$ (23,725)	\$ 61,251
As a percentage of earning assets:					
Interest sensitivity gap	(12.20%)	(24.02%)	(3.03%)	24.87%	51.53%
Cumulative sensitivity gap	(12.20%)	(36.22%)	(39.25%)	(14.39%)	37.14%

Management believes that the Bank's investment portfolio, together with the Bank's lines of credit with other institutions and the surplus funds due to increased deposits, is sufficiently liquid to cover potential fluctuations in deposit accounts and loan demand. The Bank has selected maturities to provide a proper balance of liquidity and attractive yields. The maturity distribution of the investment portfolio is presented in the following table:

Investment Securities Maturities - December 31, 1989

	Within One Year	After One But Within 5 Years	After 5 But Within 10 Years	After 10 Years	Total
(amounts in thousands)					
U.S. Treasury and other U.S. Government agencies and corporations	\$ 4,706	\$ 6,425	\$ --	\$21,171	\$32,302
State and political subdivisions	6,037	15,223	2,750	--	24,010
Other investment securities	--	--	1,326	--	1,326
Total book value	\$10,743	\$21,648	\$4,076	\$21,171	\$57,638
Average Yield ¹	8.76%	8.83%	8.92%	8.04%	8.52%

¹ Yields are computed on a tax equivalent basis.

The principal cash requirements of the Company are dividends on preferred stock. The Company is dependent upon the payment of cash dividends by the Bank to service its commitments. The Company expects that the cash dividends paid by the Bank to the Company will be sufficient to meet this repayment schedule.

**TRICO BANCSHARES - EXECUTIVE OFFICERS**

Robert H. Steveson President & Chief Executive Officer
Joan Jones Executive Vice President & Chief Financial Officer
Fred W. Hignell, III Secretary

TRI COUNTIES BANK - ADMINISTRATION

Robert H. Steveson President & Chief Executive Officer
Joan Jones Executive Vice President & Chief Administrative Officer
Carroll Taresh Executive Vice President & Chief Operating Officer
Ty Thresher Senior Vice President & Loan Administrator
Dan Herbert Vice President & Cashier
Lawrence Sparks Vice President & Loan Supervisor
Larry Hall Vice President & Data Processing Manager
Ruth Irvine Vice President & Personnel Manager
Janet K. Hannis Assistant Vice President & Sales Administrator
Gary Duquette Assistant Vice President & Loan Quality Supervisor
Kathleen Richardson Executive Secretary
Fred C. Bryant Chief Auditor
Helen Ost Financial Analyst
Kimberly D. Carter Shareholder Relations Administrator

TRI COUNTIES BANK - DEPARTMENT MANAGERS

Data Processing/Chico **Larry Hall**, Vice President & Manager
Real Estate Department/Chico **Erika Bender**, Manager
INVEST/Chico & Redding **Ron Bee**, Manager
Central Note Department/Chico **Kathy Allan**, Manager
Purchasing Department & Print Shop/Chico **Beverly K. London**, Manager
VISA/MasterCard Department/Chico **Vickie Gibson**, Manager

TRI COUNTIES BANK - LENDING SPECIALISTS

David Raven Vice President & Loan Specialist/Chico
Jim Burnell Vice President & Real Estate Loan Specialist/Chico
Larry Lewis Vice President & Loan Specialist/Redding
Chandler Church Vice President & Area Manager/Yuba City

TRI COUNTIES BANK - BRANCH LOCATIONS/MANAGERS

Park Plaza Branch
780 Mangrove Avenue
P.O. Box 2207
Chico, California 95927
(916) 345-5151

Joe Drakulic
Vice President & Manager

Pillsbury Branch
2171 Pillsbury Road
P.O. Box 1130
Chico, California 95927
(916) 345-5151

Roland Irvine
Manager

Chico Mall Branch
1950 E. 20th St.- Suite 725
Chico, California 95928
(916) 343-9173

Durham Branch
9411 Midway
P.O. Box 190
Durham, California 95938
(916) 343-3735

Walt Bender
Manager

Orland Branch
100 East Walker Street
P.O. Box 188
Orland, California 95963
(916) 865-5524

Dave DuBose
Manager

Willows Branch
210 North Tehama Street
P.O. Box 1158
Willows, California 95988
(916) 934-2191

Ed Richter
Manager

Cottonwood Branch
3349 Main Street
P.O. Box 410
Cottonwood, California 96022
(916) 347-3751

Bonnie Coleman
Manager

Bieber Branch
Bridge & Market Streets
P.O. Box 217
Bieber, California 96009
(916) 294- 5211

Palo Cedro Branch
3751 Deschutes Road
P.O. Box 144
Palo Cedro, California 96073
(916) 547-4494

Julie Jones
Manager

Redding Branch
1810 Market Street
P.O. Box 4738
Redding, California 96099
(916) 244-4700

Nolan C. Hawkins
Manager

Burney Branch
37093 Main Street
P.O. Box 2590
Burney, California 96013
(916) 335-2215

Vi Nelson
Manager

Fall River Mills Branch
Highway 299 East
P.O. Box 758
Fall River Mills, California 96028

(916) 336-6291
Suzanne Shoemaker
Manager

Yreka Branch
165 S. Broadway
P.O. Box 98
Yreka, California 96097
(916) 842-2761

Dan Bay
Manager

Yuba City Branch
(temporary location)
1521 Butte House Road
Suite C

P.O. Box 3730
Yuba City, CA 95992
(916) 671-5563
Craig Hendy
Vice President & Manager

Administration Office
15 Independence Circle
Chico, California 95926
(916) 893-8222

Loan Administration
40 Philadelphia Drive
Chico, California 95926
(916) 343-5667

Form 10-K

The Company will provide to any interested party, without charge, a copy of the Company's Annual Report on Form 10-K for the year ended December 31, 1989, as filed with the Securities and Exchange Commission, including the financial statements and schedules thereto. The report may be obtained by written request to: **Corporate Secretary, TriCo Bancshares, 15 Independence Circle, Chico, CA 95926.**

TRI COUNTIES BANK COUNTRY



TRICO BANCSHARES



15 Independence Circle
Chico, California 95926
(916) 893-8222